

FDIC State Profile

Spring 2005

New Jersey

During 2004, New Jersey achieved its highest annual job growth rate since 2000.

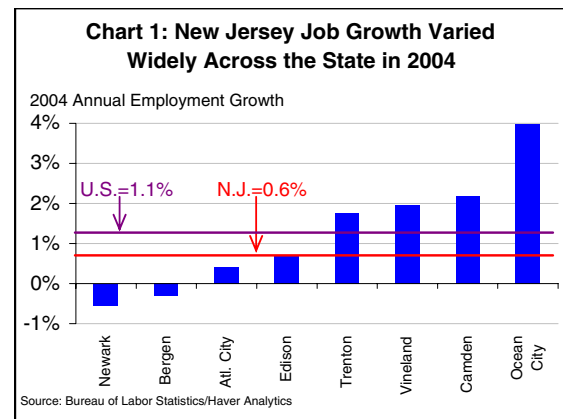
- Job growth was strongest in the central and southern parts of the state; four of New Jersey's eight metropolitan areas exceeded the U.S. average (See Chart 1).
- New Jersey's job base is diversified across industry sectors. Three different sectors led job growth in the state's fastest growing metro areas. Leisure and hospitality; professional and business services; and trade, transportation, and utilities account for a plurality of new jobs in **Ocean City**, **Camden**, and **Vineland**, respectively.
- Newark and Bergen both lost jobs over the course of the year. Newark's losses were widespread, spanning both goods and services sectors. Manufacturing and professional and business services were among the weakest industries. In Bergen, net losses were confined mostly to manufacturing.

Population growth across the state coincides with economic activity.

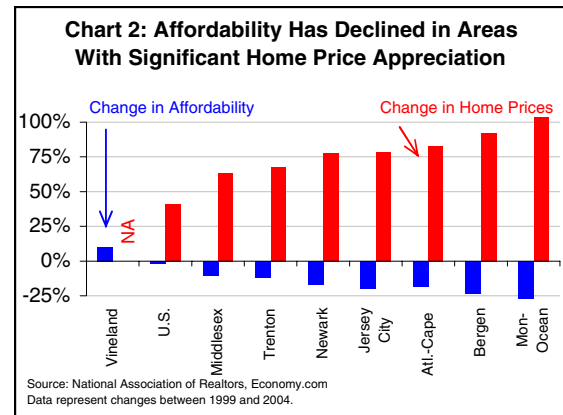
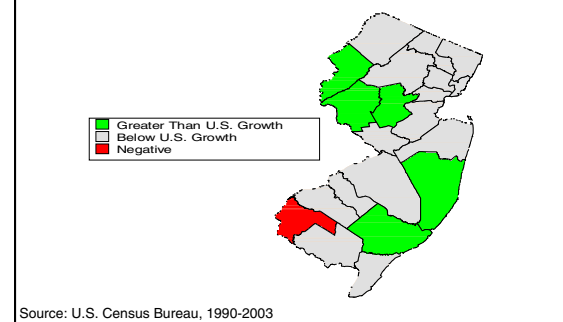
- Population growth was highest in areas with favorable long-term employment trends. Portions of the **Edison** and **Newark-Union** metropolitan divisions led statewide employment growth during the past decade (See Map 1).
- Immigration has been the primary source of New Jersey's population growth since 2001. Changes in the population composition may provide opportunities for bank products and services.

As prices climb, housing affordability has declined across the state.

- Home price appreciation in New Jersey has been among the highest in the nation. As prices have appreciated during the past five years, home affordability has declined across the vast majority of the state's metro areas; this decline has exceeded the national average (See Chart 2). Despite declining affordability, statewide home sales continued to climb in 2004 from the prior year.



Map 1: New Jersey's Strongest Population Gains Are in the West and South



State Profile

New Jersey's FDIC-insured community banks reported a stable return on assets (ROA) in 2004.

- During 2004, the state's community banks reported stable profitability as the median ROA was essentially unchanged at 0.80 percent.¹ Provisions for loan losses declined slightly from year-ago levels, reflecting strong credit quality conditions. The median loan delinquency ratio for all New Jersey-based institutions, at 0.88 percent, was almost one-half the national ratio of 1.43 percent.

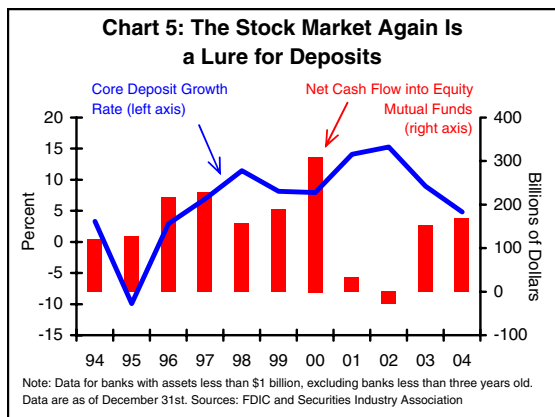
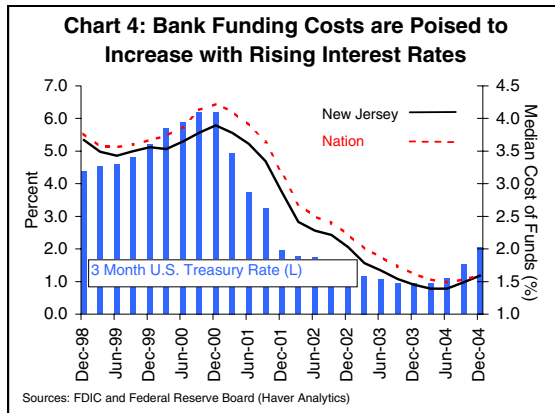
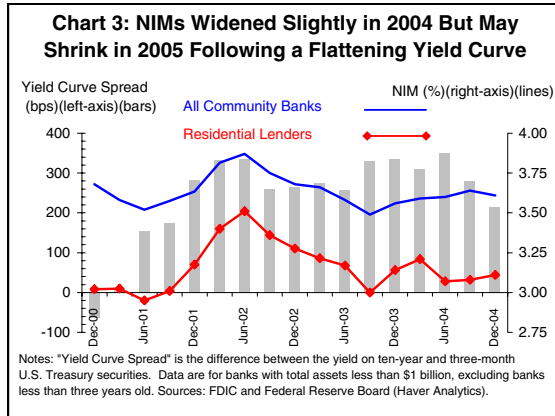
The effect of interest rate changes on net interest margins (NIM) will be a key trend to watch in 2005.

- NIMs at community banks headquartered in New Jersey increased slightly in the second half of 2004 following a steepening in the yield curve earlier in the year (See Chart 3). However, the yield curve flattened in the second half of 2004. Any continued flattening of the yield curve could pressure NIMs of some institutions.
- A greater share of New Jersey banks may experience NIM compression if the yield curve flattens because at 41 percent, the state's concentration of residential lenders is almost four times the nation's.² Residential lender NIMs may be more vulnerable because these lenders typically rely heavily on the spread between long- and short-term interest rates.

Real estate-related loans led loan growth rates, while commercial and industrial (C&I) loan growth increased.

- Reflective of strong growth in housing markets, residential real estate-related lending, such as construction and home equity loans, led community bank loan growth in 2004.
- Community banks also reported stronger C&I loan growth in 2004 consistent with an improving state economy. C&I loans grew 15.5 percent in 2004 (the highest level since 2000) following 8.1 percent growth in 2003. Growth in commercial loans, which is typically linked to short-term rates, should help banks offset higher funding costs as interest rates rise.
- Funding costs among New Jersey's community banks increased from record lows in 2004. Funding costs, which typically lag short-term interest rates, are poised to increase in 2005, following the rise in short-term rates (See Chart 4).³

- After reaching a high in 2002, core deposit growth rates have slowed as cash flow into equity mutual funds has increased (See Chart 5). Competition from equity markets and other financial intermediaries may contribute to increases in deposit rates and changes in bank assumptions regarding deposit rate sensitivity.



¹Analysis is for community banks unless otherwise noted. "Community banks" are defined as insured institutions that hold less than \$1 billion in total assets. This definition excludes credit card banks and banks less than three years old.

²"Residential mortgage lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage-backed securities.

³For information on recent trends in bank funding, see the FDIC Outlook – "In Focus This Quarter: Funding Asset Growth in a Rising Rate Environment: National and Regional Perspectives," Spring 2005, <http://www.fdic.gov/bank/analytical/regional/ro20051q/na/t1q2005.pdf>.

New Jersey at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.9%	0.4%	-0.5%	-0.5%	2.0%
Manufacturing (8%)	-2.2%	-4.0%	-6.7%	-8.6%	-0.2%
Other (non-manufacturing) Goods-Producing (4%)	4.7%	0.0%	-0.9%	8.3%	2.6%
Private Service-Producing (72%)	0.7%	0.8%	0.1%	-0.6%	2.3%
Government (16%)	2.5%	1.5%	0.7%	3.3%	2.0%
Unemployment Rate (% of labor force)	4.4	5.6	6.0	5.0	3.7

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	3.8%	0.5%	1.6%	9.9%
Single-Family Home Permits	-3.4%	6.3%	-2.0%	-6.7%	-5.1%
Multifamily Building Permits	10.9%	73.3%	-6.1%	-20.9%	52.4%
Existing Home Sales	3.0%	14.7%	0.0%	3.0%	-1.5%
Home Price Index	13.7%	12.3%	12.7%	10.4%	9.8%
Bankruptcy Filings per 1000 people (quarterly level)	1.05	1.06	1.14	1.08	1.04

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	139	146	150	151	152
Total Assets (in millions)	167,719	152,177	137,563	121,325	143,131
New Institutions (# < 3 years)	5	6	17	25	27
Subchapter S Institutions	4	4	3	1	2

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.88	0.85	0.84	0.96	0.91
ALLL/Total Loans (median %)	1.00	1.03	1.01	0.99	0.95
ALLL/Noncurrent Loans (median multiple)	2.39	2.58	2.63	2.12	2.04
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.01	0.01	0.01

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.49	8.89	8.99	9.98	9.98
Return on Assets (median %)	0.82	0.78	0.83	0.67	0.75
Pretax Return on Assets (median %)	1.24	1.15	1.19	0.98	1.08
Net Interest Margin (median %)	3.56	3.55	3.73	3.53	3.67
Yield on Earning Assets (median %)	5.03	5.19	6.06	6.91	7.40
Cost of Funding Earning Assets (median %)	1.52	1.63	2.30	3.41	3.69
Provisions to Avg. Assets (median %)	0.06	0.07	0.10	0.09	0.07
Noninterest Income to Avg. Assets (median %)	0.32	0.39	0.37	0.40	0.37
Overhead to Avg. Assets (median %)	2.58	2.63	2.73	2.83	2.75

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	60.0	57.5	55.5	59.1	58.9
Noncore Funding to Assets (median %)	16.4	16.1	14.7	14.9	13.8
Long-term Assets to Assets (median %, call filers)	25.7	29.0	25.0	26.6	24.9
Brokered Deposits (number of institutions)	27	21	18	15	9
Brokered Deposits to Assets (median % for those above)	2.7	2.7	4.9	9.2	14.6

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	29.9	31.3	30.9	27.9	19.6
Commercial Real Estate	185.9	175.2	175.1	144.7	109.8
Construction & Development	19.2	14.5	14.5	11.1	7.5
Multifamily Residential Real Estate	6.9	6.7	4.9	5.0	4.9
Nonresidential Real Estate	137.4	130.6	127.3	96.0	81.6
Residential Real Estate	241.7	250.1	264.8	270.9	286.9
Consumer	3.7	4.7	6.9	7.6	10.1
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
New York-Northern New Jersey-Long Island, NY-NJ-PA	236	713,546	< \$250 mil.	60 (43.2%)
Trenton-Ewing, NJ	25	8,847	\$250 mil. to \$1 bil.	52 (37.4%)
Atlantic City, NJ	17	3,656	\$1 bil. to \$10 bil.	22 (15.8%)
Ocean City, NJ	13	2,361	> \$10 bil.	5 (3.6%)
Vineland-Millville-Bridgeton, NJ	10	1,745		